

CONCEPTUAL BASES FOR REDUCING THE COST OF PRODUCTION IN THE CONDITIONS OF MODERNIZATION OF PRODUCTION.

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Abstract

This article discusses the basic principles of reducing production costs in the context of production modernization, analysis of the composition of the cost on the example of "Bukhara Territorial Electricity Company" Joint Stock Company, as well as some comments on 7 ways to reduce production costs according to researchers.

Key words

Production costs, direct costs, indirect costs, main production costs, total costs, product cost reduction.

In recent years, there has been an increase in the reform of the economic and social spheres in Uzbekistan. In a relatively short period of time, certain results were achieved on reforms aimed at eliminating structural constraints and gradually withdrawing the state from the economy.⁸⁴

Given that the costs of ordinary activities usually have the largest share in the total cost of any organization, the issues of their analysis and planning, as a rule, are given increased attention.

An analysis of the costs of production and sales of products can be carried out both in terms of composition, structure, dynamics within one organization, and by comparing them with industry average indicators or, if relevant information is available, with competitor data.

What are the production costs?

Production and sales costs include costs associated with the use of materials, fixed assets, purchased products and semi-finished products, fuel and energy, labor, as well as other costs associated with the performance of printing works (manufacturing of products, provision of services) and included in their cost.

⁸⁴ <https://kun.uz/uz/news/2021/11/23/seg-ishlab-chiqarishni-modernizatsiya-qilish-zamon-talabi>

Production costs are the total costs of producing a finished product, which consist of direct and indirect costs associated with production.

Estimating production costs allows companies to manage cash flow, set production targets, and determine sales and pricing strategies. It also helps manufacturers identify areas where efficiency gains and cost reductions can be achieved.

The main production costs are:

Direct costs

Direct costs include the direct costs of the finished product from start to finish. These include direct labor costs, direct material costs, consumables, and facility overheads (energy, water, etc.).

Indirect costs

Indirect costs arise in the production of finished products. These are total costs that are usually combined and then allocated based on the units produced.

The main production costs are:

1. Direct costs

- wages
- direct material costs
- consumables
- object costs

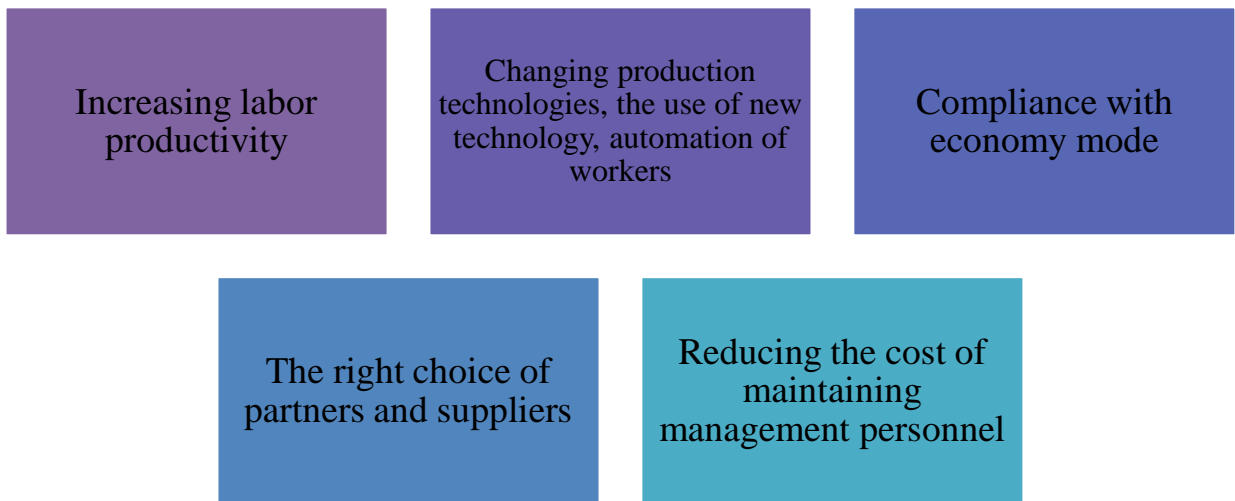
2. Indirect costs

- administrative costs
- repair cost
- inventory value
- office expenses

The calculation of the cost of production requires taking into account all direct and indirect costs. Production costs do not include profit or margin calculations.

There are several main types of cost reduction:⁸⁵

⁸⁵ https://www.profiz.ru/se/6_2018/snijaem_stoimost/



Why is it important to reduce production costs?

The main reason for reducing the cost of production is the increase in profits from the sale of finished products. Many industries operate on low margins because they produce in high volume.

In contrast, some industries operate at higher margins because finished goods are produced in batches or as part of low-volume, large-variety operations.

If production costs exceed profits, the financial position of the enterprise will worsen. A company may be forced to produce fewer low-margin products and focus on higher-margin production in order to stay afloat.

Production and production costs are different. Production costs reflect all types of costs listed above, while total production costs consist only of the costs incurred in the physical production of goods. These costs include labor, raw materials and consumables.

Algorithms for calculating the economic effect of reducing the cost of production.

Calculation of the reduction in the cost of production with an increase in the scale of production.

Each company has a different ratio of conditionally variable and conditionally fixed costs in the total amount of costs due to the peculiarities of the technological cycle of production, organizational structure and chain of business processes.

But in any case, in order to predict the effect of reducing the cost of production from an increase in its output, you must first analyze the company's costs and calculate their dynamics in relation to the dynamics of production.

Let's analyze the cost structure on the example of the “Bukhara Territorial Electricity Company” Joint Stock Company

Table 1

Cost structure analysis.

Name of indicator	For the corresponding period last year	During the reporting period	rate of change of indicators, in %
Cost of goods sold (goods, works and services)	514241378	583385594	113,4
Period expenses, total	74230265	87860242	118,4
Implementation costs	55844002	69591724	124,6
Administrative expenses	6462910	3749841	58,02
income tax	11923353	14518677	121,8
Other taxes and other obligatory payments from profit	4274500	1957504	45,8

As you can see, the company's shop floor costs for the production of products are 18% variable, and 13% - constant in relation to the dynamics of output.

The production cost of products, taking into account the influence of the cost structure of auxiliary production and general production costs, reduces the share of variable costs to 24% and increases the share of fixed costs to 21%.

Based on the data of the table analyzed above, we consider it appropriate to implement 7 methods to reduce the cost of production.

1. Checking your activity
2. Implementing continuous improvement programs
3. Improve product quality and design
4. Optimization of inventory procedures.
5. Simplify the supply chain and procurement
7. Waste optimization

It can also be seen that labor costs account for the largest share of costs in the production process of the company we are analyzing.

There are several ways to reduce these costs in the current process of globalization. One such way is to use freelancing services.

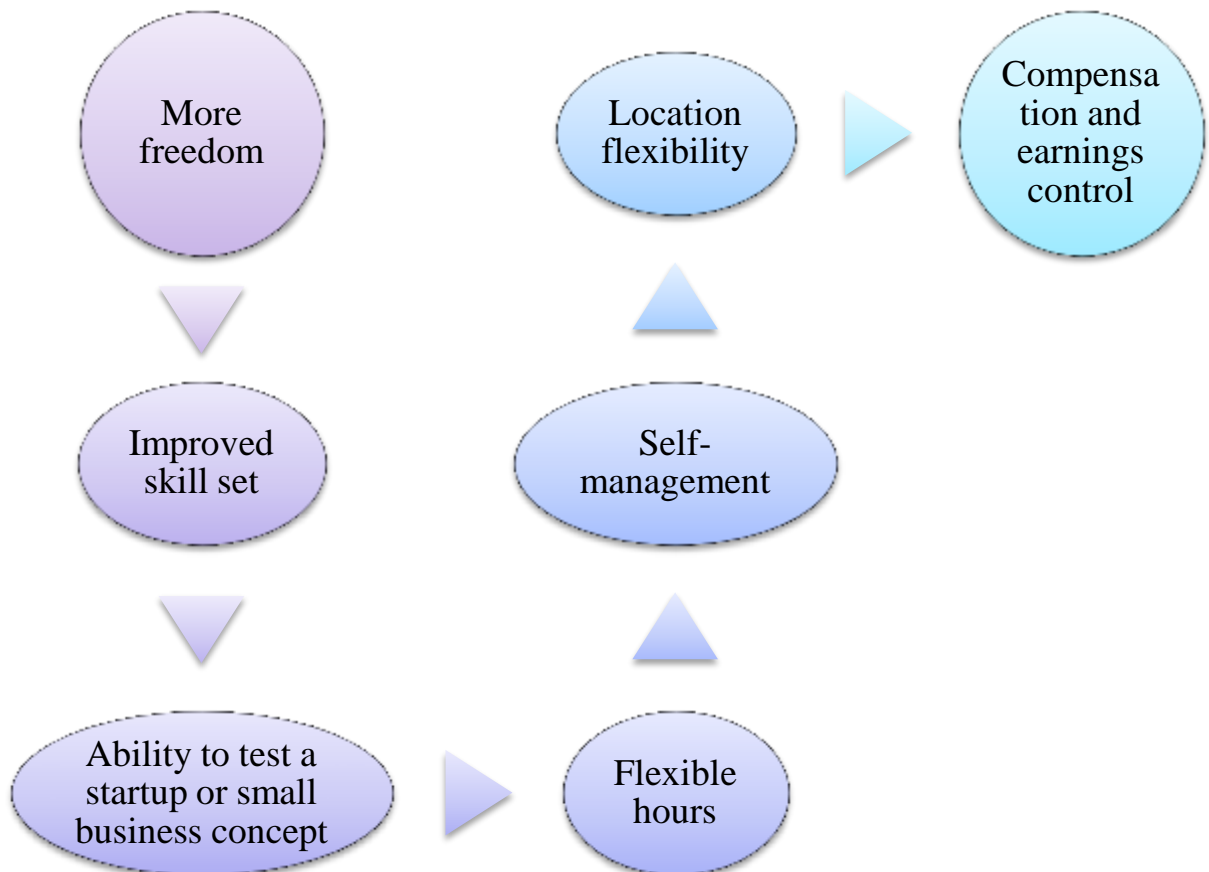
Five Reasons Why the Future of Work Lies in Freelancing
The companies prefer outsourcing the work to freelancers to save their costs on additional labour and the set-up.⁸⁶

⁸⁶ <https://www.entrepreneur.com/en-in/entrepreneurs/how-important-are-freelancers-to-the-modern-economy/313539>

In recent years, freelancing has become more popular than ever, with more than one-third of people pursuing it. Moreover, people aren't freelancing out of necessity. The majority deliberately choose the freelance lifestyle. This isn't surprising when you consider the benefits and freedom of being your own boss.⁸⁷

Freelancers make up for 5% of the total American GDP or contribute about 1.4 trillion to the US economy. A report by Statista finds that by 2027, the majority of the US workforce will be freelancing. Google's workforce consists of 54% freelancers and just 46% permanent employees.⁸⁸

7 Advantages of Being a Freelancer in 2023



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